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May 10, 2004

TO: Each Supervisor

FROM: Thomas L. Garthwaite, M.D.
Director and Chief Medical Officer

SUBJECT: **REPORT ON THE MOTIONS REGARDING THE TENET
HEALTHCARE CORPORATION HOSPITAL DIVESTITURE PLAN**

On February 3, 2004, your Board instructed the Director of Health Services, in conjunction with the Department of Mental Health, the Emergency Medical Services Commission, Chief Administrative Office and County Counsel, to conduct an evaluation of the proposed sale of 14 hospitals in Los Angeles County by Tenet Healthcare Corporation and to report its findings and recommendations. The requested review is attached.

TENET HEALTHCARE DIVESTITURE PLAN

On January 28, 2004, Tenet Healthcare Corporation reported in a press release that the company is divesting hospitals due to declining financial performance, negative cash flow and bad debt. Tenet Healthcare cited two specific reasons for restructuring its operations by selling acute care hospitals in California: 1) the cost of meeting seismic standards, and 2) the requirement to adhere to the newly implemented nurse staffing ratios. The company has targeted 19 California hospitals for divestiture by the end of 2004; 14 in Los Angeles County, four in Orange County and one in Contra Costa County.

According to Tenet, the cost of seismic retrofitting for their remaining California hospitals is estimated to be \$300 million, and upgrading the targeted hospitals would require another \$1.6 billion. Actively recruiting, hiring and training the licensed nurses needed to meet the State's staffing requirements are additional expenses. State DHS has estimated the economic impact of staffing ratios on hospitals statewide at \$422 million during 2004.

Although Tenet's divestiture plan does not include closing hospitals, it is uncertain whether all 14 Los Angeles County hospital sales can be finalized by Tenet's target date of December 2004. The potential effect of a Tenet hospital closure, or combination of closures, on surrounding facilities is difficult to estimate because the impact would vary according to geographic location and the number of closures. While the fiscal impact of hospital closures is both a public and private issue, closures near County facilities could have a particularly significant impact at a time when County hospital emergency rooms and other services are overwhelmed due to ambulance diversion and increased numbers and acuity of patients.

BOARD MOTIONS

The following addresses specific motions:

Evaluate the impact of the sales or closures on access to hospital services in the County including the emergency department closure restrictions in the Tenet purchase agreements, i.e., Centinela Hospital, Daniel Freeman Marina, Daniel Freeman Memorial, etc. (2nd District).

As noted above, it is difficult to assess the impact of any potential Tenet hospital closures in emergency services at this time. The Department of Health Services and County Counsel, in consultation with the State Attorney General's office, reviewed the Tenet purchase agreements. See Exhibit A, Board Memo dated March 1, 2004, "Tenet Divestiture Plan" (attached). The State has no legal authority to stop the planned sales of these hospitals.

Arrange a Public Hearing on the Tenet divestiture plan to include Tenet Healthcare representatives and other appropriate stakeholders, and analyze the potential impact of the Tenet divestiture plan on the County's health care system, addressing both Los Angeles and Orange County (3rd and 5th Districts).

The Emergency Medical Services Commission held a public hearing on March 4, 2004. Speakers included: 1) the Attorney General of the State of California, Bill Lockyer, 2) Assembly Member Judy Chu and a representative of Assembly Member Paul Koretz, and 3) Los Angeles County Supervisors Michael Antonovich, Yvonne Brathwaite Burke and Zev Yaroslavsky.

Speaking on behalf of Orange County were: 1) Assembly Member Lou Correa, 2) Supervisor Charles V. Smith, and 3) Emergency Medical Services Director Darlene Isbell. Representatives of Tenet California outlined the company's divestiture plan and its commitment to a "seamless transition" between Tenet and future owners. Four fire chiefs and several physicians addressed the potential impact on provider agencies and emergency departments. Nurses testified about the impact of nurse staffing ratios, the status of nursing education and the future need for nurses. One hundred thirty-four people attended the hearing (see Exhibit B, Hearing Transcript).

Both Los Angeles and Orange County representatives testified at the Public Hearing. A joint letter from the Los Angeles and Orange County Boards of Supervisors requesting relief from seismic requirements and the nurse patient ratios has been sent to Governor Schwarzenegger (Exhibit C).

Data specific to the Tenet hospitals in each county is presented in Exhibit D, Los Angeles County Data Analysis, and Exhibit E, Orange County Data Analysis. A map of hospitals identifying the Tenet facilities for sale in Los Angeles County is also attached (Exhibit F).

The data for 911 transports to Tenet hospitals indicate that four geographic areas are of concern: West, South, East and Metro Los Angeles. The Tenet hospitals in these areas receive 30%, 44%, 31% and 24%, respectively, of total 911 transports. The loss of even a single emergency department in one of these areas, particularly in South Los Angeles, would have a significant negative effect on the 911 system (Exhibit D).

Maintain ongoing communications with Tenet Healthcare during implementation of the divestiture plan and report on the numbers of additional hospitals with emergency rooms which are believed to be at substantial risk of sale or closure due to Senate Bill 1953 seismic upgrade requirements and skyrocketing operational costs (4th and 5th Districts).

The EMS Agency initiated weekly conference calls with Tenet Healthcare, beginning February 23, 2004, to discuss the status of the planned divestitures. For financial and seismic data, see Exhibit H, Hospital Financial Profiles, and Exhibit I, Hospital Seismic Performance Ratings.

The only public information compiled and readily available for financial and seismic analysis of hospitals is from the Office of Statewide Planning and Development (OSHPD). The most recent financial information is from 2002 and is self reported. The data are incomplete in that some hospitals did not report the optional financial categories. The OSHPD financial data were categorized into service planning areas (SPAs), general acute care facilities and 911 hospitals.

From the data reported by all 911 receiving hospitals, it appears that 28% have an unhealthy financial ratio of assets to liabilities, 62% are in the healthy group, while 11% did not report. It appears that 34% of 911 hospitals have a negative operating margin, 55% are positive and, again, 11% did not report. Based on the analysis of data, 35% of the 911 hospitals report liquidity problems, 34% are in the positive range and 31% did not report (Exhibit H).

The most recent seismic information is from April 2001 and is divided into structural ratings (all hospital buildings on the ground) and nonstructural ratings (emergency power supplies, bulk medical gas, fire alarms and communications).

Among the 107 general acute care hospitals in Los Angeles, there are 635 hospital buildings. Many buildings are at significant risk of collapse and a danger to the public after a strong earthquake and must be retrofitted, replaced or removed from acute care service according to SB 1953 (Exhibit I).

There is no evidence that any of the hospital campuses meet the seismic requirements. Only 35% of the 911 hospitals have requested SB 1953 extensions, which postpones the date by which a hospital must meet seismic safety deadlines beyond 2008, with subsequent one year extensions to 2013. Statewide, the estimated cost of meeting the seismic standards is \$24 billion, which exceeds the combined value of all California hospital buildings.

To date, Tenet Healthcare Corporation has revealed no information regarding the pending sales of any of the targeted facilities in Los Angeles County citing "confidentiality agreements". It is evident that the factors faced by Tenet are reflective of the broader state of health care across Los Angeles County, the State and the nation.

At this time, it is difficult to offer specific recommendations due to the lack of governmental authority in these matters. The EMS Agency and the EMS Commission will work with the Chief Administrative Office to identify potential legislative opportunities to address specific issues as the Tenet situation unfolds and information about sales or closures becomes available. More importantly, the EMS Agency and the EMS Commission are seeking private planning grants to create a strategic plan for the future of emergency medical services in Los Angeles County.

The EMS Agency will continue to monitor the Tenet situation closely and track the financial and seismic status of hospitals in Los Angeles County. The Department of Health Services will keep your Board apprised of any changes in the EMS system as they occur.

Please let me know if you have any questions.

TLG:cb
402:008

Attachments

- c. Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors
Director, Emergency Medical Services
Emergency Medical Services Commission
Auditor-Controller